



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

MINUTES

Meeting of the Investment Committee

December 9, 2010

A meeting of the Investment Committee of the Illinois Teachers' Retirement System was held on December 9, 2010 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Cynthia O'Neill, Chair, called the meeting to order at 8:00 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Cynthia O'Neill (Chair), Mike Busby (Vice Chair), Jan Cleveland, Cinda Klickna (arrived 8:35 a.m.), Sharon Leggett, Bob Lyons, Janice Reedus, Sonia Walwyn (arrived 8:15 a.m.), and Molly Phalen. Absent: Marcia Boone, Livia Kiser, Sid Marder, Chris Koch, President.

Others present: Stan Rupnik, Acting Exec. Director & CIO; Greg Turk, Director of Investments; Deron Bertolo, Director of Investment Operations; Kent Custer, Sr. Investment Officer; Mike Bartletti, Director of Real Estate; Tim Hays, Sr. Investment Officer; Scottie Bevill, Sr. Investment Officer; Zak Doehla, Investment Officer; Chuck Handy, Investment Officer; Bob Jiroutek, Sr. Investment Analyst; Dakin Sanert, Investment Analyst; Kenyatta Matheny, Investment Officer; Sally Sherman, Director of Member Services; Tom Gray, General Counsel; Jana Bergschneider, Director of Administration; Rich Frankenfeld, Director of Outreach. Stacy Smith, Director of Internal Audit; Tassi Maton, Internal Auditor; Dave Urbanek, Public Information Officer; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); and Becky Gratsinger, RV Kuhns (Investment Consultant).

Visitors present: Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; and Dennis Murfin, IRTA Rep.

APPROVAL OF MINUTES

A draft of minutes from the October 27-29, 2010 Investment Committee meeting was sent to the committee for review. On a motion by Sharon Leggett, seconded by Janice Reedus, and by unanimous voice vote, the minutes were approved as printed.

OLD BUSINESS

Investment Manager Chart

Stan Rupnik, Acting Executive Director/Chief Investment Officer, provided an organizational chart of TRS's investment managers as of September 30, 2010. Allocations are shown for the main TRS trust fund, the POB account and on a total TRS basis. Documentation is on file.

Cash Withdrawal

Mr. Rupnik discussed the recent cash withdrawals necessary to fund the System's cash requirements. Documentation is on file. The System has sold \$1.8 billion in assets through this fiscal year. Further withdrawals will be necessary to meet TRS's cash obligations if monthly state contributions are not received. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to withdraw up to 4.0 percent of the main TRS trust fund's total value, or \$1.2 billion based on the 9/30/10 ending market value. The motion passed by a unanimous voice vote. Documentation is on file.

Sudan Cost Report

Staff provided an update on the costs of compliance with Sudan divestment for the domestic equity and international equity portfolios for the fiscal year July 1, 2009 through June 30, 2010. Documentation is on file. The domestic equity portfolio had an opportunity loss of \$1.36 million; the international equity portfolio had an opportunity loss of \$7.67 million during FY 10. The committee requested that this information be shared with legislators and to stress the importance to invest in Illinois companies.

GTCR

In October, the Board approved a commitment to the GTCR Fund X, Limited Partnership subject to contract negotiation. Staff recommended withdrawing its commitment due to undecided fund terms and conditions. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to withdraw the System's \$100 million commitment to the GTCR Fund X, L.P. The motion passed by a unanimous voice vote.

Manager Search/RFP Updates

Staff reported that the fixed income international emerging market debt search is closed. Staff is working on documentation for a risk management system search.

(Trustee Klickna arrives)

STAFF/CONSULTANT PRESENTATIONS

Investment Performance Review – September 30, 2010

RV Kuhns provided an update of the investment performance for the quarter ended September 30 and provided a preliminary update through November 2010. Documentation is on file. Total assets: \$33.2 billion. The September 30, 2010 total fund return, gross of fees:

- Quarter: 8.85%
- 1 year: 11.19%
- 3 years: (-3.60%)
- 5 years: 3.41%
- 10 years: 4.66%

International Equity Annual Reviews/Global Equity Report

Kent Custer, Sr. Investment Officer, reported on the recent activity within the \$7.03 billion international equity portfolio. A report was submitted on portfolio annual reviews along with a summary of recommendations. Documentation is on file. A motion was made by Sharon Leggett, seconded by Cinda Klickna, that the committee recommend to the Board to approve the recommendations within the international equity asset class, as presented. The motion passed by a unanimous voice vote.

Staff requested the approval of product change for the current Turner domestic equity large growth mandate. Turner recommended that the System allow a sector variation in their product, creating a new composite for mandates. A motion was made by Bob Lyons, seconded by Sonia Walwyn, that the committee recommend to the Board to accept the Turner product change, as presented. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 9:30 a.m. and reconvened at 9:40 a.m.

Fixed Income Report

Scottie Beville, Sr. Investment Officer, reported on recent activity within the \$5.3 billion fixed income portfolio. Staff recommended allocating the unassigned 2.5% target to Franklin Advisors' local markets emerging markets debt "EMD" mandate to be effective January 1, 2011. Further, staff requested a search for an active US

Treasury Inflation Protected Securities (TIPS) manager for an approximate 5% weight within the fixed income portfolio. An increased exposure to TIPS was warranted to position the portfolio against possible future inflation. A motion was made by Jan Cleveland, seconded by Janice Reedus, that the committee recommend to the Board to approve staff's recommendations within the fixed income asset class, as presented. The motion passed by a unanimous voice vote.

Real Return Report & Annual Reviews

Scottie Bevill reported on recent activity within the \$3.44 billion real return portfolio. A report was submitted on portfolio annual reviews along with a summary of recommendations. Documentation is on file. A motion was made by Cinda Klickna, seconded by Mike Busby, that the committee recommend to the Board to approve staff's recommendations within the real return asset class, as presented. The motion passed by a unanimous voice vote.

MBE/WBE Utilization Report

Stan Rupnik provided an update on the participation of women/minority-owned brokers and investment managers through September 30, 2010. Assets under management for MBE-owned investments were \$4.07 billion, representing 13.02% of the total TRS portfolio. Documentation is on file. This quarter reflects the new goals that were approved by the Board at the October meeting. The goal for assets under management is currently 13.5% of the total fund.

Investment Policy Revisions

Stan Rupnik summarized revisions to the Investment Policy relating to the manager search process. A motion was made by Cinda Klickna, seconded by Molly Phalen, that the committee recommend to the Board to approve the revisions, as presented. The motion passed by a unanimous voice vote.

Private Equity Co-Investment Process

Staff presented a formal process document of the private equity co-investment procedures. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to accept the co-investment process document. The motion passed by a unanimous voice vote.

Transition Summaries

Staff reported on the international equity and domestic equity transition activities of Aberdeen, Northern Trust, and Levin/MFS. Documentation is on file.

Asia Strategy Implementation

Zak gave an overview of TRS' implementation plan to pursue investment opportunities in Asia. Discussion followed. Warburg Pincus provided a background of the current investment and economic environment for the Asian markets. Their presentation booklet is on file.

RECESS

The meeting recessed at 12:30 p.m. and reconvened at 1:15 p.m.

Private Equity Education

Pacific Corporate Group (PCG) provided an educational presentation on private equity investments in the energy sector and in Asia. Documentation is on file.

NEW BUSINESS

Private Equity – EnerVest

Representatives of EnerVest, Ltd. presented an investment opportunity in its EnerVest Institutional Fund XII-A, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. The fund focuses on the production of oil and gas in North America. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the committee recommend to the Board to invest up to \$75 million to EnerVest Institutional Fund XII-A, L.P. within the main fund subject to contract negotiations. The motion passed by a unanimous voice vote.

RECESS

The meeting recessed at 3:35 p.m. and reconvened at 3:45 p.m.

Private Equity – Morgan Creek Partners Asia Fund, L.P.

Representatives of Morgan Creek Capital Management presented an investment opportunity in their private equity fund, MCP Asia Fund, Limited Partnership. Their presentation booklet is on file. Staff provided an overview of the firm and due diligence that was conducted. A motion was made by Cinda Klickna, seconded by Jan Cleveland, that the committee recommend to the Board to invest up to \$100 million to MCP Asia Fund, L.P. The motion passed by a unanimous voice vote.

ADJOURNMENT

There being no further business to come before the Investment Committee, a motion was made by Janice Reedus, seconded by Cinda Klickna, to adjourn the meeting at 4:50 p.m.

Richard W. Ingram, Executive Director

Approved _____